

65. Defendant Chris J. Phillips ("Phillips") served as a Senior Vice President of BPX until at least 1/22/02. He is a U.S. and Alaskan citizen, living in Alaska. He has extensive contacts with the U.S.

66. Defendant Stanley P. Presley ("Presley") served as a Senior Vice President of BPX until at least 1/22/02. He is a U.S. and Alaskan citizen, living in Alaska. He has extensive contacts with the U.S.

67. Defendant Richard C. Woollam ("Woollam") is the former head of pipeline-corrosion monitoring for Bp at BPX. He was removed and transferred in 2005 because he intimidated employees and retaliated against them for warning of safety problems, including pipeline corrosion at BPX.

68. In recent years, BP's Chairman or its Board has described the functions and operations of BP's Board to BP's shareholders. In 2002 they stated:

A particularly important task of the board is to monitor the way the company manages its approach to opportunities and risks, which may be operational, financial, environmental or ethical. This monitoring includes an annual review of the full range of possible risks, a review that shapes our continuing assessments. The board's committees review the business throughout the year. . . .

We believe that we have robust policies and processes *that give the board a clear picture of the business as a whole, and the ability to monitor and assess changes and developments*. At the same time, the chief executive and his team must have the freedom and flexibility to exercise the day-to-day judgements needed to run the company.

These policies and processes are all the more important because, as a major international company, we come under intense and varied scrutiny in the societies in which we operate. This comes from regulatory authorities and others representing the interests of people who are affected in some way by our operations – as well as our shareholders, employees and customers.

In 2003:

The board, which comprises a majority of independent non-executive directors, works to ensure that your *long-term interests* as owners are both protected and enhanced. Our work includes assessing the opportunities and risks confronting the group and monitoring the controls applied to manage and exploit them. In its oversight of the group, the board recognizes the need for the executive team to exercise its judgment in the management of the business, displaying innovation and entrepreneurship – the qualities that have led BP to its current position – but without compromising our standards of probity and transparency.

In 2004:

Within a company with such a strong executive management team, it is important that the role of the board is understood. *As a board, we are conscious that we oversee the activities of the business in the interests of all our owners. . . .*

... [O]ur board recognizes that the primary business of the board *is* corporate governance. Governing BP is not a matter to be driven solely by compliance concerns, but by the business purpose of the company you entrust us to govern on your behalf. Our role as a board therefore focuses on ensuring your interests are promoted and that our business maximizes long-term value for you, our owners.

... We also monitor the operations of the business in pursuit of that strategy to ensure both that BP's activities live out the values we set and also, critically, that shareholder value lies at the heart of all we do.

69. Attachment A hereto is a chart showing which Individual Defendants held BP Board positions during key time periods. All of the BP Board members and managers sued in this action were aware of numerous warnings and red flags raised as to BP's reckless conduct in the operation of its U.S. refineries and its operations on Alaska's North Slope, including BP's entry into a criminal plea agreement, a five-year probation stint, numerous claims BP violated that probation, and communications sent by BP employees and outsiders to the members of the BP Board containing serious warnings of BP's reckless misconduct. All of these warnings were ignored, diverted or diluted and dangerous conditions were

ignored to the detriment of BP, its workers, the U.S., the State of Alaska and the shareholders – the real owners of BP.

### **DEFENDANTS' DUTIES**

70. By reason of their status as directors and/or executives of BP, defendants owed fiduciary duties of good faith, fair dealing, due care and candor to BP's shareholders and to the Company.

71. To discharge their legal duties, defendants were required to exercise reasonable and prudent supervision over BP's management, policies, practices, controls, and financial affairs pursuant to their fiduciary obligations to use the same care and diligence as would an ordinary prudent person in a similar position. By virtue of these obligations, defendants were required, among other things, to:

- (a) act in the best interests of BP;
- (b) govern BP in such a manner as to utilize the resources of the Company in a manner which benefits the Company and not the personal interests or preferences of defendants;
- (c) refrain from abusing their positions of control;
- (d) not to favor their own interests at the expense of BP;
- (e) in good faith, manage, conduct, supervise, and direct the business and affairs of BP carefully and prudently in accordance with federal and state laws, including the laws and regulations of the United States and the states of the U.S., including the States of Alaska and Texas;

(f) exercise reasonable control and supervision over the officers and employees of BP;

(g) maintain a proper division of authority and responsibility among the directors and/or officers of BP so as to prevent the dominance of any director and/or officer by any other director or executive of BP in the conduct of the business and affairs of BP;

(h) ensure that BP did not engage in unlawful, unsafe, imprudent or unsound practices, and become and remain informed as to how BP was, in fact, operating;

(i) upon receiving notice or information of an unlawful, unsafe, imprudent or unsound practice, to make a reasonable investigation in connection therewith and to take steps to correct that condition or practice; and

(j) to supervise the preparation and filing of any financial statements, reports or other information required by law from BP to be filed with the U.S. Securities and Exchange Commission (“SEC”) and/or distributed to BP shareholders, including BP’s 20-F Annual Reports to Shareholders and 6-K Reports of Foreign Issuers concerning the financial condition of BP, BP’s compliance with applicable law, and defendants’ stewardship of the Company’s assets and resources.

72. By reason of their directorial and/or officer positions, membership on the BP Board, and their ability to dominate and control BP’s business and corporate affairs at all relevant times, defendants owed BP and its shareholders obligations of candor, care, fidelity, trust and loyalty, and were required to use their ability to control BP in a fair, just and equitable manner, as well as to act in furtherance of BP’s and its shareholders’ best interest and not in furtherance of their own personal interest or preferences. In addition, each

defendant owed BP and its shareholders the duty to exercise care and diligence in the management and administration of BP's affairs and in the use and preservation of its property and assets.

73. Through their directorial positions, each director of BP controlled and dominated BP and its business and corporate affairs.

74. Each defendant is sued individually as a conspirator and aider and abettor, as well as in their capacity as present or former officers and directors and/or executives of BP (or any of its subsidiaries), and the liability of each arises from the fact that they have engaged in all or part of the unlawful acts, plans, schemes, or transactions complained of herein.

### **REPRESENTATIONS TO BP SHAREHOLDERS**

75. Over the past several years, defendants have consistently represented to the owners of BP – its shareholders – that they were competent and honest stewards and managers, committed to worker and workplace safety, environmental protection and legal compliance in BP's operations. BP's Board and top executives told BP's shareholders:

In all our activities we seek to display some unchanging fundamental qualities – *integrity, honest dealing* . . .

To translate these into guides for practical action, we build on them in our group values. By bringing together intentions previously articulated in a number of different policy statements, these make it clear that the group aims

\* \* \*

- to carry on its business in an environmentally responsible manner . . .

. . . [W]e express our group values under four headings: performance, people and capability, *health, safety and environment*, and external relationships.

76. BP's Board and top executives also told BP's shareholders:

**BP maintains a commitment to four brand values: to be progressive, innovative, green and performance driven**

Our place as one of the world's leading energy businesses is not a bragging right. It's a privilege built on the values that guide everything we do – from the oil fields, rigs and other sources of global energy that we harvest to the board rooms where key decisions about the company and its future are made.

These values keep us accountable to one another, the business world, our customers and the vast communities we serve. They also help us present consistent messages to our stakeholders.

**What to we mean by progressive?**

BP is a modern, dynamically led company that never stands still. In touch with society and our global communities, accessible and open, inclusive and diverse, we seek new and better approaches to the way we conduct business.

**How are we innovative?**

To us, innovative means combining *the latest technology* with the creative know-how of our employees worldwide, more than 100,000 strong, to find new solutions for our customers.

**What is the significance of being green?**

*Green summarizes our vision of environmental leadership . . .*

**How do we approach performance?**

We set the standard of corporate and financial performance on a global scale by delivering on promises that go beyond financials, *including environmental, performance [and] safety . . .*

**Group values**

\* \* \*

*These values cover health and safety, legal and ethical compliance . . .*

77. BP's directors and top executives also told BP's shareholders:

**We describe the management frameworks, notably those on safety and the environment, which lie at the heart of our efforts to deliver first-class performance in a responsible manner**

\* \* \*

- **Safety and operational integrity**

*Safety is fundamental to the way we conduct our business, as governed by our Guiding Principles*

- Operations Review Team
- Safety induction and training
- Preventative measures
- Industrial safety standards
- Performance data
- **Environmental management systems**

The fundamental elements of our ISO 14001 certified environmental management system in Alaska

- Enhanced environmental management systems
- Using technology to reduce impact
- Waste management
- Spill prevention and response

78. As to its operational safety commitments, BP told its shareholders:

**Preventative measures**

**Important components of our safety management system are employee-led Advanced Safety Audits and behavior-based safety programs, near miss reporting and incident investigations**

Advanced Safety Audits are a behavioral observation process taught to supervisory and management personnel to assist them in engaging the workforce regarding daily at-risk behaviors. Employees describe the hazards inherent with the job and work with supervisors to best plan successful hazard mitigation plans.

In 2003, the Alaska Business Unit achieved BP world-class status in the number of safety observations conducted – a total of more than 70,000 safety inputs through Behavior-Based Safety programs and Advanced Safety Audits. Safety experts credit safety observations as main ingredients in achieving positive safety performance through the identification of ‘at-risk’ behaviors. BP Exploration (Alaska) Inc. (BPXA) incorporates four behavior-based programs across Alaska. Each is designed to identify behaviors that are critical to on-the-job-excellence, gather data on workgroup performance for site-specific behaviors, provide regular two-way feedback on workgroup performance for critical behaviors and remove barriers to continuous performance improvement.

The Near Miss Program encourages reporting of all close calls with the belief that bringing them to the attention of others can correct unsafe conditions or serve as a reminder in areas where extreme caution is warranted. Near misses are shared not only with the Alaska business but across other parts of the global BP organization. Near miss reporting also increased in 2003.

Incident investigation uses root cause analysis to determine the factors that lead to a safety incident. Serious incidents have a very formal, prescribed investigative process. For high-impact incidents involving serious injury or a fatality, an external investigation team is mobilized that includes a BP executive and Root Cause specialist from outside the Alaska business. Government agency investigations are often run independent and parallel to a company investigation but are fully supported by BP. Recommendations resulting from an investigation are assigned to individuals for follow-up and set into a schedule for completion. The results are shared among contractors, other BP locations and the industry to share the learning.

## A-22

In August 2002, one of our Prudhoe Bay operators was injured while starting up a well with high outer annulus pressure. As a result of thermal expansion the outer casing in well A-22 over pressured resulting in a release of gas that ignited in the wellhouse. We set in place more prescriptive

procedures during well start-ups and conducted remedial training to all our field operators.

The Alaska Oil and Gas Conservation Commission (AOGCC), a state oversight agency, accepted our revised policies and developed their own state rules for the operation of wells with high annular pressures; a phenomenon that is not unique to Prudhoe Bay or Alaska. In addition, the agency proposed a penalty of over \$2.5 million in December 2003. We disagree with their assessment and are seeking an informal review with the agency to appeal against the proposed penalty.

79. BP's directors and top executives also told BP's shareholders:

**To ensure consistency on a global level, BP requires all of its major installations to develop and maintain an environmental management system (EMS) certified to meet ISO 14001 standards – an international standard that defines the overall structure and requirements of an EMS**

The standard is based on compliance with regulations, prevention of pollution and continual improvement.

\* \* \*

### **Compliance assurance**

Our compliance assurance process is an integral part of the overall EMS. Its structure is based on the Plan-Do-Check-Act cycle that requires

- identification of legal and other requirements
- determination of structure, responsibility and operational control
- development of monitoring and measurement, corrective and prevention action
- management review

Legal requirements include applicable laws, regulations, permits, agency orders and enforceable agreements. Other requirements include initiatives set by industry groups and internal corporate agreements. Requirements are entered into a compliance matrix that summarizes applicable requirements for relevant projects, facilities and activities. The matrix is updated and maintained through periodic reviews to reflect new and revised requirements as well as changes in operations.

## **Pollution prevention**

BPXA is committed to pollution prevention and waste minimization. Pollution prevention is a good business practice, reduces environmental risks, increases efficiency, reduces potential environmental liability and saves money. Pollution prevention is integrated into our environmental management systems.

BPXA has developed a Pollution Prevention Guidance Manual to help managers incorporate pollution prevention into their site-specific EMS.

## **Contractor compliance**

To minimize the potential for environmental mishaps and associated company liability, contractors must comply with environmental requirements and reporting obligations that relate to their work. Selected contractors are required to have written EMSs that focus on compliance.

BPXA assigns managers to oversee contractor compliance and to evaluate their EMSs in 1999. BPXA established an outreach program called the "Contractor Toolbox" to help contractors develop and implement their own EMSs and improve their environmental performance. The voluntary program consists of workshops, self-assessments, mentoring and site visits.

## **Corrosion management**

BPXA spends about \$50 million annually to monitor, locate, repair and manage the effects of corrosion that occurs when an electrochemical process breaks down steel. On Alaska's North Slope, we operate thousands of steel vessels and most of the 1,600-plus miles of pipelines that carry oil, water and gas from well sites through processing facilities and ultimately to sales or injection points. We semi-annually review our corrosion plan with the state Department of Environmental Conservation. Under the plan, corrosion managers direct corrosion mitigation resources to protect and extend the life of the assets.

*Internal corrosion rates have declined 90% since 1992.* The annual inspection program consists of approximately 100,000 locations, internal corrosion inspections have remained relatively constant with about 60,000 inspections per year. *The external corrosion program was substantially increased in 2002 from the historical level of more than 13,000 locations per year to about 35,000 locations in 2003.*

80. Regarding ethical conduct, including the duty to operate lawfully, in 2002, BP's Board told the owners of BP, *i.e.*, its shareholders:

### **Ethical Conduct**

We expect our staff to act according to the highest standards of ethical behavior. This is reinforced through an annual process and through policy development, training and actions that uphold our standards, including disciplinary measures.

\* \* \*

Every year, those in positions of responsibility are asked to attest that their personal behavior and the actions of their teams comply with our ethical conduct policy. We significantly enhanced this process last year to encourage open discussion and sharing of ethical issues, which we believe will contribute to continuous improvement in the way we do business.

In 2005, they told them:

In everything we do, we are guided by our group values. These are aspirations that cover such areas as *health and safety*, continuous improvement, human capability and *environmentally sound operations*.

In 2004, they told them.

### **BP: our business**

The way we work is guided by values – *integrity, honest dealing*, treating everyone with respect and dignity, striving for mutual advantage, transparency and contributing to human progress. These values are enshrined in practical policies and standards that govern areas of our activity, including *health, safety*, security, *environment*, *ethical conduct* and business relationships.

We use a system of risk management to assess the impact of our activities on the environment, local economies and communities. Where appropriate, accountability for managing environmental and social impacts is part of managers' performance contracts, with specific objectives and milestones.

*People's safety is of the highest priority. Managers are accountable for ensuring that safety risks are properly addressed, staff are trained and facilities are well-maintained. We closely monitor our safety performance.*

In 2004, the number of injury cases (resulting in our employees or contractors being away from work for a day or more) was 0.08 per 200,000 hours worked, compared with 0.09 in 2003. This performance is approaching the best in our industry and also within our target set at 0.09 for 2004.

81. With regard to safety in its operations and care to avoid oil spills, BP constantly assured BP shareholders of the attention paid to these important matters and the success BP was achieving. In 2003, these stewards told the owners of BP's business:

The way we work is guided by values – integrity, honest dealing, treating everyone with respect and dignity, striving for mutual advantage and contributing to human progress. These values are developed into policies that govern areas including health, safety, security, environment, ethical conduct and business relationships.

We use a system of risk management to assess the impact of activities *on the environment*, local economies and communities. Where appropriate, accountability for managing environmental and social impact is part of managers' performance contracts, with specific objectives and milestones.

People's safety is of the highest priority. *Managers are accountable for ensuring that safety risks are properly addressed, staff are fully trained and facilities are well maintained.* We closely monitor our safety performance. The number of serious injury cases (resulting in our employees or contractors being away from work for a day or more) has dropped from almost 38 per month in 1999 to 21 per month in 2003. In 2003, we achieved the target of maintaining our 2002 performance while introducing many new workforce members through our acquisition of Veba, whose injury rate was historically higher than that of BP.

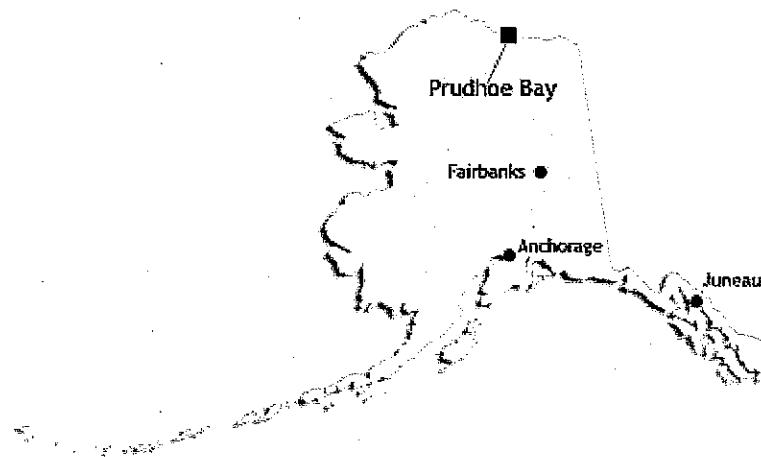
82. With regard to protecting the environment, BP's Board told the owners of BP's business:

We will only work within or close to sensitive areas if we believe we can *properly manage any risks to the environment.*

## SUBSTANTIVE ALLEGATIONS

### Alaska Safety and Environmental Problems

83. In 1968, oil was discovered in Prudhoe Bay on the Arctic Slope. By 1969, oil-lease sales were bringing revenues to Alaska. In 1974, construction began on the Trans-Alaska Pipeline System ("TAPS") with Valdez as its southern terminus. TAPS, which includes the Prudhoe Bay collection and distribution facilities of BP, was completed in 1977.



84. Prudhoe Bay is often called the "North Slope," which refers to a region larger than the state of Minnesota. The North Slope is entirely covered in permafrost, a condition where the soil about two feet down from the surface remains in a permanently frozen state. The permafrost, combined with the flatness of the land, results in an abundance of small lakes and ponds, because spring snow melt has nowhere to go.

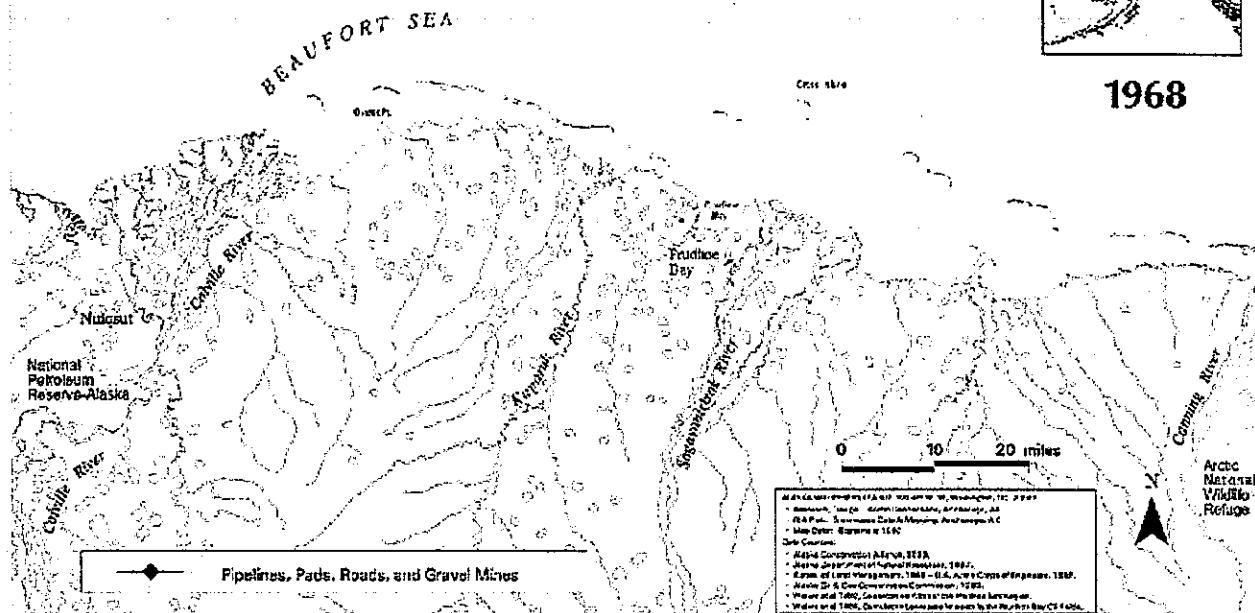
85. The oil of Prudhoe Bay lies in porous rock formations anywhere from 5,000 to 20,000 feet below the surface. It rises to the wellhead under its own geologic pressure, so no pumping is required. Produced oil normally comes up mixed with water, natural gas, and even paraffin wax crystals. Oil from all the wells on a given drill site or pad (usually 20-30

wells) is sent to a manifold building, which tests the production for the oil/gas/water ratio. The mixture is then sent to one of several flow stations/gathering centers, where the oil is separated out and sent down the pipeline to market. All of the water and some of the gas is re-injected back into the ground to enhance the formation pressure. A fraction of the natural gas is used to heat all the buildings in Prudhoe Bay. The rest is burnt off.

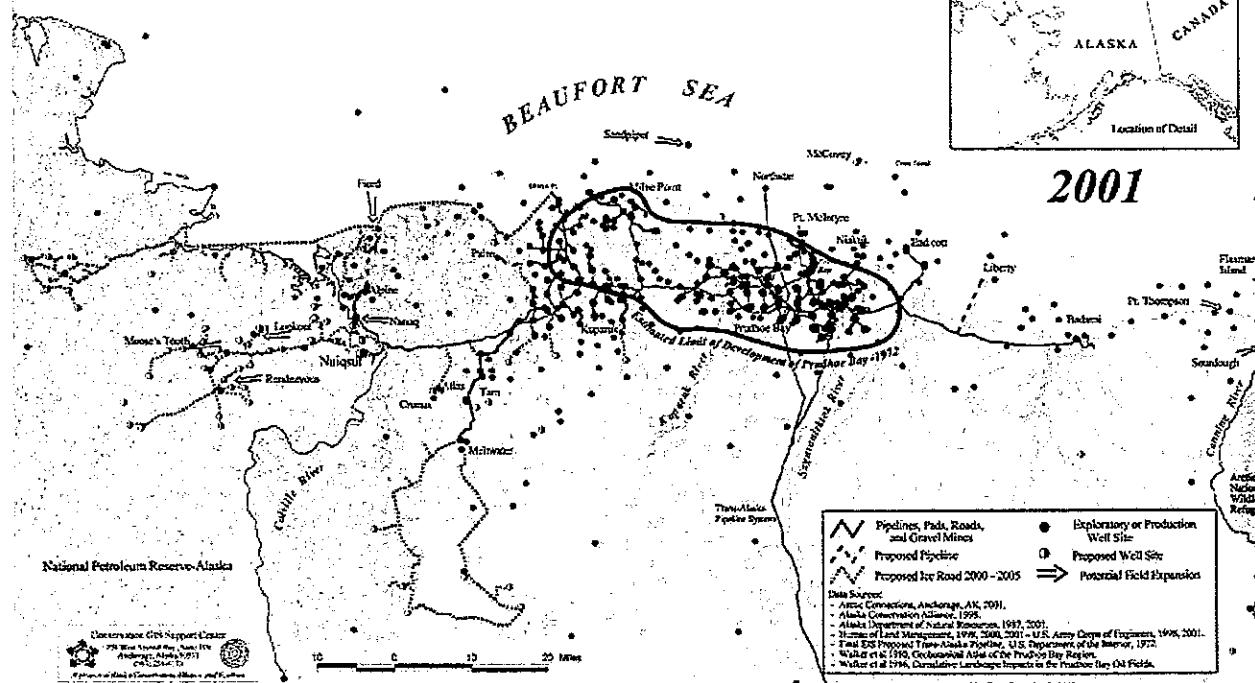
86. Since operations began in 1977, over 12.8 billion barrels of oil have been pumped from 19 producing North Slope fields. The Prudhoe Bay fields and the TAPS have suffered oil spills. Spills have long half-lives. One study found that 28 years after an initial spill there were still substantial hydrocarbons in the soil and little vegetation recovery.

87. The following maps show the growth of the oil industry in Prudhoe Bay from 1968 to 2001. The 2001 map includes proposed wells, ice roads, and three new field expansions within the National Petroleum Reserve – Alaska:

# Oil Development in America's Arctic



## Oil Exploration & Development in America's Arctic



88. Together with ConocoPhillips and ExxonMobil, BP controls 95 % of Alaska North Slope oil production and the 800-mile TAPS. Over the last two decades, defendants have caused and/or permitted BP's Alaska operations to consistently fail to comply with laws, regulations and practices required for the safe operations of the TAPS – at the same time, failing to live up to BP's publicly represented environmentally responsible image. As the available reserves in the Prudhoe Bay field have declined and the easily recoverable oil has been recovered, BP's top managers have curtailed BP's investments and expenditures there. BP admitted:

These are challenging times for BP and other producers in Alaska's oil and gas industry. Total North Slope production has declined since its peak in the late 1980s. Pressure on costs has increased. This makes efforts to control costs very important as the company strives to sustain its operations and keep them competitive for continued investment.

89. Unfortunately, BP has a long and sordid history of environmental law violations its executives now try to camouflage with a little green and yellow sunburst. In 1989, nearly 11 million gallons of oil spilled into Prince William Sound after the tanker Exxon Valdez ran aground. Exxon, whose sea captain was intoxicated when his tanker ran aground, shouldered the brunt of the public condemnation for the catastrophe. But BP owned and controlled a majority of the Alaskan oil on the tanker, of TAPS and of the consortium called "Alyeska" that ran Alaska's oil production. It was Alyeska that was responsible for maintenance and safety precautions and could have prevented the catastrophe. And it was Alyeska that initially responded to the spill until the response was taken over by Exxon. Just 10 months before the massive Valdez oil spill, Alyeska held a secret, top-level meeting. Alyeska's chief of operations at the Valdez terminal, Theo Polasek

("Polasek"), warned at the meeting that it was "not possible" to contain an oil spill in the centre of Prince William Sound – exactly where the Exxon Valdez grounded. Polasek needed millions of dollars for spill containment equipment. The law required it; Alyeska promised it to regulators; then, at the meeting, the proposed spending was voted down. Smaller spills before the Exxon Valdez disaster had alerted Alyeska and BP that the port's oil-spill containment system was ineffective. But, according to Alyeska's lab technician Erlene Blake ("Blake"), management routinely ordered her to change test results to eliminate "oil-in-water" readings. Blake was told to dump out oily water and re-fill test tubes from a bucket of cleansed sea water, which they called the "Miracle Barrel." Moreover, a confidential letter dated April 1984, four years before the Exxon Valdez spill, written by sea captain James Woodle ("Woodle"), then Alyeska's Valdez port commander, warned management: "*Due to a reduction in manning, age of equipment, limited training and lack of personnel, serious doubt exists that [we] would be able to contain and clean-up effectively a medium or large size oil spill.*" According to captain Woodle, there had been a spill at Valdez before the Exxon collision – although not nearly as large. When he prepared to report it to the government, his supervisor forced him to take back the notice, with the Orwellian command, "You made a mistake. This was not an oil spill." Because BP owned and controlled a majority of Alyeska, captain Woodle, technician Blake, and vice-president Polasek, all worked for BP.

90. When there is an oil spill, the chief objective is "containment." The failure to contain the spreading oil from Exxon Valdez destroyed over 1,000 miles of coastline. BP's London headquarters had learned of the falsification of reports to the U.S. government years

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before the spill. In September 1984, independent oil shipper Charles Hamel ("Hamel"), shaken by evidence he received from Alyeska employees, warned BP executives in London about dangerous goings-on at Valdez. Moreover, the port commander, Captain Woodle, delivered his list of missing equipment and personnel directly into the hands of BP's then-Alaska chief, George Nelson. BP's executives tried to bury the content of Woodle's letter, details of Hamel's London trip and other warnings of the deteriorating containment system. Alyeska tried to blackmail Woodle and when that failed, to bribe him, offering him pay-outs on condition that he leave the state, promising never to return. BP mounted a secret campaign to hound Hamel out of the industry. A CIA expert was hired to wiretap Hamel's phone lines, smuggle microphones into his home, intercept his mail and try to entrap him with young women. The industrial espionage caper was personally ordered and controlled by BP executive James Hermiller, President of Alyeska. In the subsequent high-profile court case, a federal judge described the spying episode as "reminiscent of Nazi Germany."

91. Approximately 200 lawsuits were filed in state and federal courts in Alaska seeking compensatory and punitive damages arising out of the Exxon Valdez oil spill in Prince William Sound. Most of those suits named Alyeska, and the other oil companies which own Alyeska, including BP which owned a 47% interest in Alyeska through a subsidiary of BP America. Alyeska and its owners have settled all the claims against them under these lawsuits at a very substantial cost in terms of fees, costs and settlements.

92. Between 1998 and 1999, BP and three of its contractors were ordered to pay a total of \$25 million in penalties for illegal re-injection of hazardous wastes into North Slope wellheads. The Company also pled guilty to a criminal count of illegal dumping, and paid a

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\$500,000 criminal fine. BP was placed on five years of probation, an extreme step taken only due to BP's consistent violations of law. The re-injection rules were clear: *nothing* is to be re-injected beneath the frozen substrate of the North Slope that did not originate there, and *nothing* toxic is to be re-injected. Nevertheless, for years barrels of hazardous foreign substances, such as glycol and paint thinners, were brought to BP's Endicott production facility, on a man-made island 18 miles northeast of Prudhoe Bay, for re-injection. The illegal disposal was ongoing and took place only at night.

93. The terms of the Plea Agreement required BP to develop, implement and maintain a nationwide environmental management system ("EMS") consistent with the "best environmental practices" at *all* of BP's U.S. facilities engaged in oil exploration, drilling and/or production. According to the terms of BP's probation, BP was also prohibited from incentivizing employees to violate U.S. environmental laws through the payment of bonuses. Prior to entering into the Plea Agreement, defendants were required to provide evidence to the court that the directors of BPX had authorized the terms of the Plea Agreement.

94. During 2000, three BP America subsidiaries were forced to reach an agreement with the U.S. EPA and several states to settle alleged violations of various Clean Air Act requirements at several BP locations throughout the U.S. A Consent Decree was finalized in early 2001. This settlement, which addressed emissions of sulphur dioxide and nitrogen dioxide, required the installation of additional controls at all eight of BP's U.S. refineries at a cost, over an eight-year period, of approximately \$500 million, and the payment of a \$10 million penalty. The three BP America subsidiaries, and their officers and directors, remain subject to the terms of the Consent Decree through 2008.

95. During 10/01, the TAPS was pierced by bullets causing a major oil spill. The legally required master plan for TAPS oil spill response represented that the pipeline owners maintained a variety of spill response equipment that is readily available for rapid response to any emergency. One of the listed items is a bullet hole clamp. But when a miscreant shot a hole in the pipeline with a high-powered rifle in 10/01, it was revealed that the bullet hole clamp could not be used. As a result, a thick stream of crude oil poured into the nearby trees for 36 hours.

96. Finding BP was behind schedule on installing leak-detection systems required by law, in 2002 the State of Alaska fined BP \$300,000 and ordered it to install an accurate leak-detection system on the major Prudhoe Bay crude oil pipelines. BP purportedly complied, adding equipment designed to alert field workers whenever there was a leak.

97. To stress the progress being made in Alaska, in 1/06, BP's Board and top executives told BP's shareholders:

**Upgrades to the trans Alaska pipeline will reduce operating costs, extend the line's economic life and reduce air emissions**

The 1.290km (800-mile) trans-Alaska oil pipeline from Prudhoe Bay on Alaska's North Slope to Valdez on the state's southern coast is undergoing an upgrade costing more than \$250 million – the biggest single investment in the pipeline since oil began flowing from Prudhoe Bay nearly three decades ago.

\* \* \*

“The upgrade should save about 10% a year in operating costs, extend the economic life of the pipeline and improve the economics of North Slope oil,” says [Mike Heatwole, manager of corporate communications for Alyeska Pipeline Service Company, the firm which operates and maintains the pipeline on behalf of BP and other owners].

\* \* \*

"The new pipeline control systems, automation and electrification technology are used in the pipeline industry all over the world," Notes Heatwole. "This project creates a simplified fit-for-purpose system that is less expensive to operate *without sacrificing the safety or integrity of our system.*"

98. There are caribou crossings on the North Slope intersecting the pipeline. In 2003, BP promised Alaska it would check all caribou crossings in search of standing water in the culverts. Water is a danger for pipelines, triggering corrosion that can quickly eat through steel. BP made the promise after three small holes developed in a 24-inch pipeline, allowing 1,500 gallons of crude oil to leak.

99. BP's "transit" lines carry supposedly refinery-ready petroleum from processing plants that remove water and sludge. BP has represented it had a monitoring system that was working effectively and would detect leaks on the transit lines which carried crude oil from the processing plants, where water was supposedly removed, to gathering centers where they were put into the TAPS and carried to Valdez.

100. In the months leading up to the 3/06 spill at Prudhoe Bay, the North Slope Borough (the local government entity) twice urged that better leak-detection equipment than that used on the Prudhoe Bay pipeline be installed. Then-currently available leak detectors were capable of performing more than twice as well as those BP was using. BP refused.

101. BP executives and directors neglected key pipelines at the core of the vast Prudhoe Bay field, allowing bacterial-ridden sludge to build up inside the lines and corrosion to go unchecked. The transit lines where the huge leaks of 3/06 occurred had been installed in 1976 and were 30 years old. These pipelines were designed to be used only 25 years and had reached the end of their useful life in 2000. To avoid the huge cost of doing so, SHAREHOLDER DERIVATIVE COMPLAINT FOR BREACH OF FIDUCIARY DUTY  
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defendants had not replaced them. *Moreover, they had neglected to clean the interior of some of these pipelines for 14 years, producing a buildup of sludge a foot thick in the pipes.* By contrast, other pipelines (non-transit) are cleaned using scraper pigs about every two weeks. The bacteria that caused the corrosion in the transit lines is shielded from the chemicals BP adds to the oil flow to suppress corrosion by the sludge. Corrosion is a constant problem for oil pipelines. The combination of oil, gas, carbon dioxide and water can form carbonic acid that eats away steel pipe. In a field like Prudhoe Bay, corrosion is more likely because BP is pumping water from the Beaufort Sea into the wells to help push out the oil as pressure in the aging field declines. Now the wells are producing 1.3 million barrels per day of water, along with 400,000 barrels of oil. The sludge buildup in the 22 miles of transit lines was exacerbated by the low and slow flow rate through the lines which were originally designed to handle much larger and faster-moving volumes of oil. Prudhoe has been pumping since 1977 and once produced four times what it does today. And BP's internal records lay bare a company keenly aware of the corrosion problem. In 1999, as a condition for approving BP's merger with Arco, which previously operated part of the Prudhoe Bay field, state officials called for twice-yearly meetings with BP to review the Company's corrosion monitoring. That year, BP workers approached Hamel with concerns that, to hold down costs, the Company was skimping on use of a corrosion-prevention chemical. In a 5/04 letter to BP director defendant Massey, Chairman of the BP Board's Environmental Committee, Hamel warned of "cost-cutting, causing serious corrosion damage" to lines and worker fears of "a catastrophic event." BP responded by sending a flank of Vinson & Elkins lawyers to hush the workers through intimidation tactics. After the

BP Board and Company executives failed to fix the problems described, Hamel went to EPA officials. BPX managers have admitted that during late 2004 and early 2005 BP found that the corrosion in its North Slope pipelines was rapidly growing worse. However, the Company only increased its corrosion-prevention budget from \$50 million in 2004 to \$71 million in 2006, a grossly inadequate amount. The 3/06 leak was due to pipe corrosion.

102. The transit pipe carried supposedly high-quality crude oil from plants that separate water from oil on the western side of Prudhoe, about six miles to Pump Station 1, the starting point of the 800 mile TAP. BP and state investigators immediately determined that corrosion had eaten the pipe from the inside out. The pipe, 34 inches in diameter, was installed in 1976, a year before production began at Prudhoe. The hole was approximately a quarter-inch long and a half-inch wide and was located below a gravel caribou crossing (a mound of gravel placed over elevated, above-ground North Slope pipelines to allow the animals to cross). This section of transit line had known interior and exterior corrosion damage. As a result, BP had downgraded the maximum pressure allowed within the line, but had taken no other corrective action.

103. The pipeline between Gathering Center 2 and pump Station 1 was a low-pressure transit line covered by the 2002 order to install leak-detection systems. Under state law, a leak-detection system must sound an alarm for field workers if the pipeline's oil flow dips by 1 percent or more in a 24-hour period. BP Vice President Maureen Johnson ("Johnson") initially insisted that the leak-detection alarm *did not sound*. BP spokesman, Daren Beudo ("Beudo"), said the leak-detection system had been tested and that "*it*

*complies with regulations.” However, a report issued in connection with a state regulatory investigation in 4/06 revealed that the leak-detection alarm rang for four days to no avail!*

104. BP's leak response system failed in connection with the massive 3/06 leak and spill. Oil had been leaking for five days from a corroded pipeline between facilities at Prudhoe Bay when a worker driving a deserted stretch of road in the Prudhoe Bay oil field noticed a strong petroleum odor and stopped to investigate on 3/2/06. Between 1996 and 2004, E&P operations in the sprawling Prudhoe Bay complex resulted in many small oil spills, but this one – estimated at approximately 201,000 barrels – was by far the biggest oil spill in nearly three decades of North Slope petroleum production. A thick layer of black crude oil spread over the cold mantle of ice and snow.

105. The spill caused major business disruption for BP, shutting down a pipeline that carried approximately 100,000 barrels of oil per day, or 12% of the total North Slope production. The spill also exposed BP to scrutiny from federal pipeline regulators, members of Congress and criminal investigations by Alaska State authorities and the U.S. Department of Justice.

106. On 3/22/06, BP told its shareholders:

**BP and contractor personnel are continuing business resumption activities related to the March 2 oil spill at the company's Prudhoe Bay, Alaska oil field.**

\* \* \*

The oil spill was caused by a leak in a small section of a 34-inch diameter pipeline that transfers oil from one of six processing plants at the Prudhoe Bay complex to the Trans Alaska Pipeline System (TAPS). The leaking section of pipe has been repaired and the three-mile section of pipeline

is being inspected prior to re-start. Re-start of the line is expected in four to six weeks.

\* \* \*

Preliminary investigation results indicate the leak was caused by internal corrosion in the pipe.

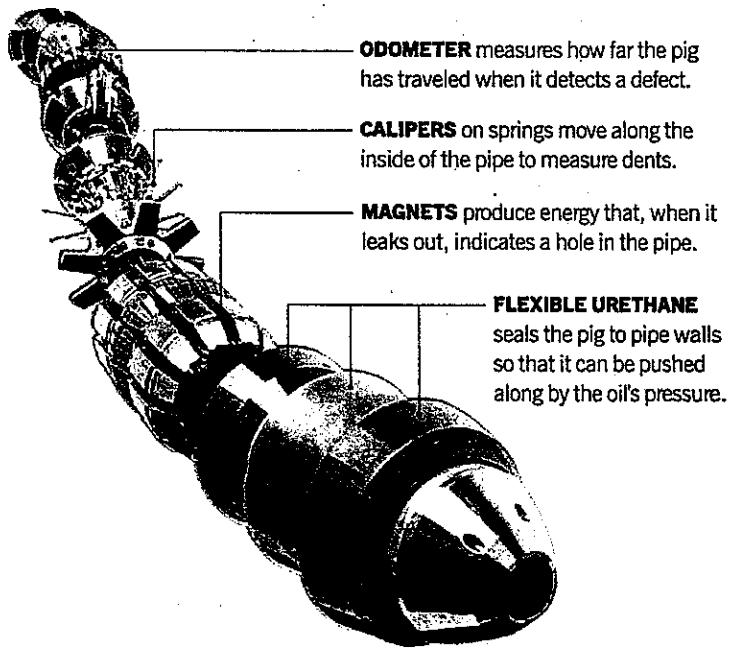
107. In the weeks following the spill the U.S. Pipeline and Hazardous Materials Safety Administration (“PHMSA”) took the highly unusual step of ordering BP to inspect all of the Company’s pipelines. The leak investigation turned up at least six additional “anomalies” along a five-kilometer segment of the pipeline that failed, with the same internal corrosion seen in several places. *At the worst trouble spots, the pipeline’s carbon steel wall, normally more than a third of an inch thick, was down to 0.04 of an inch, a razor-thin barrier.* The Department of Transportation’s preliminary investigation found the pipeline’s leak-detection system “*was not effective in recognizing and identifying the failure.*” The PHMSA also found that BP had last tested the line with a so-called smart pig – a bullet-shaped electronic device that slides through a pipe to locate and identify corroded or weak spots – *in 1998, and that the Company had no regular pigging schedule!* Pigging is one of

the most important ways to find flaws in pipeline walls.<sup>1</sup> The PHMSA ordered BP to meet 10 conditions for returning the then-idled pipeline to service (including the eastern and western Prudhoe lines and the Lisburne lines), including: (i) repairing corrosion damage to the satisfaction of federal officials before restarting the pipeline that leaked; (ii) developing plans to reduce internal corrosion on all three major pipelines within three months; and (iii) reviewing and improving leak-detection systems on the pipelines within three months. BP is

1

## Smart Pig to the Rescue!

The high-tech "smart pig," developed in the '60s, uses sensors to test pipes. Some say BP might have avoided the shutdown if it had used them more often.



finally cleaning the sludge – *but as of 8/14/06 those cleaning efforts had to be suspended out of fear too much sludge was being pushed into the TAPS!*

108. Set forth below is a summary of BP's terrible safety record in Alaska, as of 7/06 – a record that could only have existed where the corporate stewards and managers involved turned a blind eye to U.S. and Alaskan law and their fiduciary obligations:

- **1998-1999: BP and Contractors Pay \$26 Million in Penalties for Illegal Re-injection of Hazardous Wastes** – The re-injection rules are clear, nothing is to be re-injected beneath the frozen substrate of the North Slope that did not originate there, and nothing toxic is to be re-injected. Nevertheless, for years, barrels of hazardous foreign substances, such as glycol and paint thinners, were brought to the Endicott production facility, on a man-made island 18 miles northeast of Prudhoe Bay, for re-injection. When an intrepid worker questioned this practice in 1995, BP characterized the re-injection as two isolated incidents. But, in reality, the illegal disposal was ongoing and took place only at night. After an extended investigation, BP, its drilling contractor Doyon Drilling, and three workers paid \$1.55 million in civil penalties, while BP and Doyon Drilling agreed to spend an additional \$17 million to improve their environmental compliance programs.
- **October 2001: TAPS Bullet Hole Oil Spills** – The legally required master plan for TAPS oil spill response boasts that the pipeline owners maintain a variety of spill response equipment that is readily available for rapid response to any emergency. One of the listed items is a bullet hole clamp. But when a miscreant shot a hole in the pipeline with a high-powered rifle in 10/01, it was revealed that the celebrated bullet hole clamp could not be used. As a result, a thick stream of crude oil poured into the nearby trees for 36 hours, destroying nearly 2-1/2 acres of trees.
- **2001-2002: North Slope Worker Safety Problems** – In 8/01, after North Slope workers complained that budget cuts forced them to work with worn-out and dangerous equipment, BP insisted that its North Slope operations were safer now than ever. In 8/02, when an explosion and fire at a Prudhoe Bay wellhouse put a veteran worker in the hospital with serious burns, BP claimed that well inspections prior to the blast had been properly conducted. Later admitting that this claims was false, BP again promised to improve its field monitoring and safety programs. Four months later, a welder repairing a high-pressure line at Prudhoe Bay was killed when a plug blew out of the line.

- **March 2006: Oil Spill at Prudhoe Bay** – Oil had been leaking for five days from a corroded pipeline between facilities at Prudhoe Bay when a worker driving a deserted stretch of road in the Prudhoe Bay oil field noticed a strong petroleum odor and stopped to investigate. This spill – estimated at approximately 200,000 gallons – was by far the biggest oil spill in nearly three decades of North Slope petroleum production. An EPA criminal investigation is ongoing and a state oil pollution fine may be levied.
- **July 2006: Well Failures** – 57 of approximately 2,200 oil wells in the Prudhoe Bay complex were shut down for inspection and possible repair. The final 12 were not shut down until worker complaints again drew national press attention.

109. Then, on 8/6/06, another leak at BP's Prudhoe pipelines – just one mile from BP's corrosion-control office – caused the Company to shut down *all* Prudhoe Bay operations after approximately 1,000 gallons of oil leaked. *Upon inspection, BP workers found five holes in the pipeline caused by the same corrosion that caused the 3/06 spill.*

110. BP had been required to comply with the federal order to test and inspect its pipelines following the 3/06 spill. Before BP could comply with the order and “pig” the transit lines, it had to remove the sludge which blocked the pipe and was one of the reasons pigging had not been done for years. BP had just removed the sludge from and “pigged” the pipeline that sprung a leak on 8/6/06, finding *16 bad spots in the steel pipeline wall. This portion of the transit line had not been pigged since 1992 – 14 years earlier!* Gary Crawford, BP's Corrosion Detection Team Leader in Prudhoe Bay, told *USA Today* “We're actually a water field that produces oil. . . . Back in the '80s, they didn't have water, so you didn't have to worry about corrosion.” In response to the 8/6/06 spill, BP spokesman Beudo admitted that “Pigging and cleaning, clearly in hindsight, would have removed the solids that we believe helped foster the growth of these microbes.” BPX President,

defendant Marshall, agreed: “*Clearly, in hindsight, that program was not sufficient.*” On 8/17/06, Marshall testified at a joint meeting of the State and House resources committee admitting that BP had “*a gap in our corrosion inspection system*” that allowed the transit lines to corrode and develop holes through which oil could escape. A DOT official, Tom Barrett, expressed shock at BP’s poor level of maintenance stating, “What disappointed me was the level of care that BP paid to these lines. . . . *It’s not the level of care we would have expected from a company like this in this industry.*”

111. As a result of this disaster and the revelations that surrounded it, regulators have cracked down on BP. On 8/18/06, the *Financial Times* reported:

#### **BP faces tighter Alaska controls**

*The US government is “accelerating” efforts to impose additional regulatory controls on BP’s Alaskan oilfield, half of which has been shut for severe corrosion.*

Tom Barrett, administrator of the Department of Transportation’s Pipeline and Hazardous Materials Safety Administration, said in an interview that he would issue a notice within one to two weeks laying out new rules to guide safe operation of BP’s oil transit lines. His office said they could come within days.

“We’re moving to bring them under more federal oversight,” Mr. Barrett said “If they had maintained the lines properly, we would not be in this situation.”

The government’s decision to take swift regulatory control over the pipelines is embarrassing for BP.

“Companies have the first obligation to operate safely,” Mr. Barrett said.

The DOT, convinced that this was not the case at BP’s Alaskan operations, ordered four daily surveys of all of BP’s low-pressure lines at Prudhoe Bay, North America’s largest oil field.

It also must use heat-seeing infrared equipment to spot leak and conduct visual walking, driving or flying surveys up and down the entire 22-mile length of the system.

The order also directs BP to strip the insulation from its western operating line, which regulators have permitted to continue operating, and conduct ultrasonic tests, using technology similar to a sonogram, to obtain a complete picture of the line's conditions.

112. On 8/19/06, BP received subpoenas from the DEC seeking decades worth of records pertaining to pipeline maintenance and the 3/06 and 8/06 spills.

113. A federal grand jury had been impaneled in Anchorage in 2005 to investigate alleged criminal violations of the federal Clean Water Act by BP. Following the 3/06 spill, the grand jury uncovered a report prepared under contract with the State of Alaska in 2001 by Coffman Engineers, a Seattle-based firm, which raised significant red flags about BP's monitoring of corrosion in its Alaska pipelines. The grand jury also obtained the original Coffman report *which was significantly altered – watered-down* – after intervention by BP executives. The 2001 Coffman report questioned whether BP was using remote-operated devices that check for corrosion and other wear extensively enough. The 2001 Coffman report described the so-called “smart pigging” as “*the only inspection technique capable of looking at the whole internal and external corrosion picture.*” After the intervention of BP executives, most of the Coffman report comments about “pigging” were eliminated from the final report published in early 2002. In the aftermath of the 3/06 spill, BP's executives conceded that BP had not “pigged” the transit lines in western Prudhoe since 1998.

114. All of this could have been avoided if BP had used the state-of-the-art, high-tech pigging, cleaning and corrosion-testing equipment on all of the 1,500 miles of above-

ground pipeline that winds its way around the 200,000-acre field. “*In hindsight, we should have been pigging,*” said Copeland, Prudhoe Bay field manager. Whistleblowers have for years issued warnings about ineffective corrosion monitoring. Industry experts state that for BP to say it did not suspect microbial bacteria in its transit lines is just not credible. Microbiologic-influenced corrosion (“MIC,” as it is known in the industry) has been something oil companies have guarded against for decade. “*Any prudent operator is going to be sure it does not have MIC and is going to periodically run cleaning pigs to sweep out colonies if they do form,*” says Rick Kuprewicz, president of Accufact, a pipeline energy consulting firm. Maintenance pigging, which scrapes the sides of the pipeline with metal bristles, is considered the best way to get rid of corrosion-causing agents. BP had not pigged the damaged eastern pipeline sine 1992. It had not pigged the one on the western side since 1998. *In contrast, Alyeska, which runs the trans-Alaska pipeline that carries BP’s oil 800 miles across Alaska to Valdez, pigs its lines every two weeks!*

115. Following the 3/06 spill, Mary Barnes, BP’s federal probation officer who monitored its compliance with the five-year probation arising out of its entry into the Plea Agreement in Alaska, questioned whether BP had adequately inspected and repaired its North Slope transit pipelines during its probation. The EMS monitoring program required BP to comply with the “*best environmental practices*” in all of its U.S. operations. Ridgway Hall, a private Washington, D.C. attorney, appointed by the Alaska federal court to oversee BP’s management system during the term of its probation, stated on 8/18/06 that “Part of the management system was paying careful attention to equipment, *equipment maintenance, preventive maintenance*, wherever there is a risk of environmental releases, because part of

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the management system was to try to maximize environmental compliance, including both regulatory requirements and minimizing releases."

116. BP officials have admitted this disaster was due to gross neglect and failure to react to many warnings.

117. According to the *Financial Times*:

In 2003, Steve Marshall, president of BP Alaska, warned in an internal memo to staff: "Beginning now, we will focus on safety as we have never focused on it before, as if our lives and our future in Alaska depended on it. Because they do."

The previous year, the site had more than 11 recordable injuries and one day-away-from-work case per month, a well explosion that severely injured an operator, the death of a contract worker, and an average of more than six vehicle incidents per month. It seemed things could only get better.

Yet, in the three years since Mr. Marshall's call to action, BP has continued to suffer accidents and regulatory violations.

The situation came to a head last month, when a BP pipeline spilled up to 270,000 gallons of crude – the biggest spill ever in Prudhoe Bay, North America's largest oil field.

*The Alaska Department of Environmental Conservation has blamed corrosion for the spill, something workers have for years complained had been neglected by management.*

"BP management is focused on their own short-term profit and not on BP's long-term impact to this country," said Marc Kovac, a mechanic who has worked at the Alaska field for 28 years. "This breach is not an isolated case. BP has experienced ruptures in the recent past and more lines other than this one are in a similar condition."

\* \* \*

*Workers in Alaska have long . . . complain[ed] that BP cuts corners, putting workers and the environment at risk, charges BP adamantly denies. As far back as 1999, an e-mail obtained by the FT documents concerns being raised over staff ability to respond to critical events given the increase in workloads.*

To keep day-away-from-work cases down, one worker said, *BP sometimes ordered those injured back to work, a complaint also made in a safety audit on BP in Texas.*

An internal union e-mail obtained by the FT says a worker helping with the March clean-up in Alaska slipped on the icy road, breaking a wrist and tearing two knee ligaments: To hide the incident, BP management ordered this man back to work to keep this incident off the “time off work for a work-related injury” record, the union said. . . .

118. According to MSNBC.com:

#### **BP admits knowledge of corrosion problems**

\* \* \*

*BP now admits that senior company officials were warned three years ago about serious corrosion problems in the pipeline being shut down this week.*

The warnings were laid out in correspondence obtained by NBC News, between Chuck Hamel, an advocate for oil workers, and senior BP officials.

Hamel writes that BP workers had come to him predicting a “*major catastrophic event*” and warning that “*cost-cutting*” had caused “*serious corrosion damage to flow lines and systems.*”

“*They were cheating in what’s required of them in normal business practice in an oil field to save money, to cut corners,*” Hamel says.

\* \* \*

*In the last few months, a number of BP workers have told the FBI that beginning in 1999, supervisors ordered them to cut back on a key chemical – known as corrosion inhibitor – put into the system to protect pipes. After a major spill last March, BP told federal regulators there was “a reduced level of corrosion inhibitor” in the system that failed. Federal officials ordered BP to inject more chemicals into the pipeline.*

119. According to the “*Truthout Report*” of 8/11/06:

*Hundreds of pages of documents highlighting BP’s nearly decade-long neglect of its Prudhoe Bay pipelines, its internal safety regulations, and the company’s alleged cover-up of past oil spills that resulted from severely*

*corroded pipelines are archived on a little known web site maintained by a former oil industry analyst who also acts as a spokesman for BP whistleblowers.*

*The documents showcase the genesis of a corporate scandal that parallels the financial machinations that brought down Enron Corp.*

*The BP documents, which include emails, photographs, videos, and letters sent to BP executives . . . as well as internal reports, all of which were early warnings about problems plaguing BP's Prudhoe Bay operations, were written by more than 100 company whistleblowers and date back as far as 1999.*

*The documents are extraordinary in that they provide a detailed picture of how BP seemingly ignored dozens of early warnings from employees that its drilling operations on Alaska's North Slope would be doomed if the company did not take immediate steps to upgrade its pipelines and other infrastructure.*

\* \* \*

The web site housing the smoking-gun emails, letters and reports, ANWRnews.com was launched by Chuck Hamel, an activist and former oil broker and analyst based in Alexandria, Virginia. *Hamel was contacted five years ago by a group of BP employees who were concerned that the company's massive cost-cutting measures at its Prudhoe Bay operations would have an adverse impact on safety and operations.*

"We were concerned about BP's cost-cutting efforts undermining our ability to respond to emergencies, and reducing the reliability of critical safety systems," states a letter sent to Hamel, signed by dozens of BP's Prudhoe Bay employees on April 13, 2001. "We were concerned about the lack of preventative maintenance on our equipment. We had suffered a major fire, which burned a well pad module to the ground, and nearly cost one of our operators his life."

Hamel, who is credited with exposing weak pollution laws at the Valdez tanker port in the 1980s and electrical and maintenance problems with the trans-Alaska oil pipeline, immediately took up the BP whistleblowers' cause and in mid-2001 wrote a letter to BP president Lord John Browne raising the issue of safety and maintenance problems at the Prudhoe Bay facilities.

\* \* \*

Additional whistleblowers came forward to expose the flaws at BP's North Slope operations, in some cases warning company executives and lawmakers that *an Exxon Valdez-type disaster was bound to happen if BP did not invest additional funds in upgrading its corroded pipelines and non-operational safety valves.*

*"The situation will continue to deteriorate for the workers' safety and the environment until one of two things happen: Either there will be a major environmental catastrophe at Prudhoe Bay, similar to the Exxon Valdez, or there will be a change in environmental and employee safety oversight in Alaska before that disaster occurs,"* according to a March 4, 2002, copy of BP employee William Burkett's testimony before a Senate Committee chaired by Sen. Joseph Lieberman (D-Conn) and Sen. Bob Graham (D-Fla).

*BP refused to budge, and on several occasions, Hamel alleges, company executives lied to Congress and Alaska state regulators about the condition of its Prudhoe Bay facilities and the amount of money the company was spending on maintenance and pipeline upgrades.*

Indeed, earlier this year, Glen Plumlee, a senior financial analyst with Alyeska Pipeline Service Co., operator of the trans-Alaska pipeline system of which BP is a majority owner, filed a complaint with federal labor officials alleging that company executives retaliated against him because he cooperated with the Environmental Protection Agency's criminal investigation into the company.

*Plumlee, 51, of Anchorage, told federal investigators he was pressured to boost estimates of how much Alyeska was spending to fight corrosion on the trans-Alaska oil pipeline.* Severe corrosion in one of BP's transit pipelines at Prudhoe Bay, which connects directly to the trans-Alaska pipeline, is the reason the company shut down its North Slope operations this week.

\* \* \*

Plumlee claims that company executives pressured him in *December 2005 to alter the amount of money BP-controlled Alyeska spent on pipeline corrosion – from \$28 million to \$46 million – for the previous year, which he refused to do.*

Plumlee added that it wasn't the first time he had been asked to cook the books. "On September 19, 2005, an Alyeska executive asked him to pull together the numbers on corrosion spending for Steve Marshall, BP

Exploration (Alaska) Inc.'s president," according to an April 5 report in the *Fairbanks News-Miner*.

Another high-level executive of BP-controlled Alyeska also tried to warn company executives about numerous safety and maintenance problems associated with the 800-mile trans-Alaska pipeline system that, if continued to go unanswered, would have a direct impact on BP's Prudhoe Bay operations.

*Last August, Dan Hisey, the former chief operating officer of Alyeska, created a comprehensive list for Alyeska's top executives of the 101 current and potential problems plaguing the pipeline system, one of which was severe corrosion. A week after the list was circulated, Hisey's position was abolished.*

\* \* \*

*Over the past five years, with profits from drilling declining as the volume of oil extracted from the North Slope fell from 800,000 barrels per day to half that, BP began instituting cost-cutting measures. Hundreds of employees were laid off, and as a result, Hamel claims, safety and maintenance of pipelines and other infrastructure at Prudhoe Bay suffered.*

In an interview with the *New York Times* published March 18, longtime BP employee Marc Kovac said he and his co-workers warned BP on numerous occasions that cost-cutting measures affecting routine maintenance and inspection would greatly increase the likelihood of accidents, pipeline ruptures and spills.

*"For years we've been warning the company about cutting back on maintenance," Kovac told the *New York Times*. "We know that this could have been prevented."*

\* \* \*

Three weeks ago, before severe corrosion was discovered in a transit pipeline, forcing the closure of BP's Prudhoe Bay operations Sunday, the company was forced to shut down 12 oil wells after whistleblowers contacted a reporter at the *Financial Times* to say 50 of the wells were leaking gas and hydrocarbon fluids – a serious environmental hazard as well and a risk to employees.

120. Following the 3/06 and 8/06 spills, U.S. Senator Ted Stevens stated that he had learned that BP employees routinely recorded measurements over the years that should have

caused them to question the conditions. Stevens learned this through the Company's own admissions that demonstrated that BP had allowed corrosion to eat away 81% of the steel in portions of one of its major transit lines. Stevens stated that because BP officials told him they had "special procedures to check for corrosion and erosion and any sludge inside the pipeline . . . *[w]e should've known every time there was 1 percent gone.*" Stevens was also angered when he learned that the byproducts of bacteria colonies in the pipe may have been responsible for the corrosion, indicating BP was sending substandard oil down the line: "Bacteria only exist in these pipelines in water. Its not there in oil, its not there in gas, it has to be in water. . . . The oil that went in, that should be of the quality it doesn't have any water." Stevens, an oil industry veteran, has stated that BP's monitoring system was deficient because it failed to eliminate water in the oil.

121. When senior BP executives were ordered to appear before the U.S. Congress on 9/7/06, the former head of pipeline-corrosion monitoring for BP in Alaska *refused to testify under oath as outraged lawmakers grilled Company officials over the causes of the massive 3/06 oil spill. Defendant Richard C. Woollam, who lawmakers identified as a former head of corrosion monitoring at Prudhoe Bay, invoked the Fifth Amendment of the U.S. Constitution in refusing to answer all questions from a House Subcommittee!* "If a company – one of the world's most successful oil companies – can't do the basic maintenance needed to keep Prudhoe Bay's oil field operating safely and without interruption, maybe it shouldn't be operating the pipeline," said Rep. Joe Barton. Rep. Diana DeGette said she was especially disappointed in BP, since it professes in advertising to pride itself on protecting the environment. *"I applaud BP for trying to move beyond petroleum,*

*but maybe it should start by sticking to the basics and begin to focus on rudimentary pipe maintenance,"* she said. Rep. Bart Stupak said the spill-related shutdown raises questions about why there were no redundancies built into the pipeline system that carries Prudhoe Bay oil to market so that the shutdown would not have been necessary. "It is not Monday morning quarterbacking to suggest BP should have had a plan," Stupak said.

122. Just how serious the current crisis surrounding BP is, is highlighted by hearings just held before a U.S. Congressional committee, as reported by the *Anchorage Daily News*:

### **Congress grills BP execs**

#### **House panel asks if company profit precluded pipeline maintenance**

The first of at least four congressional hearings into why BP failed to prevent pipeline failures on Alaska's North Slope began dramatically Thursday when Richard Woollam, the company's corrosion chief until 2005, refused to testify, citing his right against self-incrimination. In a day marked with blistering criticism of BP from Republicans and Democrats on the House Energy and Commerce Committee, the British-born Woollam, derided in an internal BP report as "King Richard" for his dictatorial style, declined to answer any questions.

The committee's investigations panel is looking into the failure of BP to monitor and control corrosion on two North Slope transit pipelines that feed the trans-Alaska pipeline. One of those lines had a catastrophic leak March 2, spilling more than 200,000 gallons of oil in the tundra and the ice-locked shore of an unnamed lake. The other line had a smaller leak in August. Unsure of the reliability of either line, BP announced it would shut down all Prudhoe Bay production Aug. 6, then later limited the closure to the field's eastern half.

Over and over, the committee members grilled BP Exploration Alaska president Steve Marshall, demanding to know why BP neglected to conduct the only reliable test of the decay of an entire pipeline – a "smart pig" that travels inside the pipe and records the thickness of the wall along the pipe's length.

Marshall replied that company officials believed the line wasn't as susceptible to corrosion as others. The last smart pig run on the western line was in 1998; on the eastern line, it was 1992.

But was it just an error in judgment, the committee wanted to know, or was something else at work? Was BP shaving costs to increase profits? Were executives trying to beef up their annual bonuses by meeting budgets regardless of the consequences? Along those lines, committee chairman Joe Barton, R-Texas, wondered aloud whether BP was "betting the farm" that the Prudhoe Bay field would run out before the pipeline failed, saving the costs of replacing it.

"Shame, shame, shame," he said.

\* \* \*

Woollam was a late entry on the witness list. House investigators looking into claims that corrosion workers were afraid to criticize BP's practices unearthed an internal BP report from 2004. That report, by the law firm Vinson & Elkins, said Woollam's "overbearing management style" created a climate "where the fear of retaliation and intimidation could and did occur."

\* \* \*

After pleading the Fifth Amendment in the packed committee room, Woollam was quickly dismissed from the hearing. He rushed from the Rayburn Building without speaking to reporters.

The Vinson & Elkins report recommended that Woollam be stripped of his supervisory duties. In January 2005, three months after the report was delivered, BP reassigned him to Houston. Malone said Woollam was recently placed on administrative leave, with pay.

Woollam, and the presence of a battery of defense attorneys, was a sharp reminder of grand jury proceedings in Anchorage hanging over the congressional hearings. The Justice Department and EPA are investigating whether the March 2 oil spill was a criminal violation of the Clean Water Act.

\* \* \*

The two transit lines were unregulated by the U.S. Transportation Department's Pipeline and Hazardous Materials Safety Administration because they operated at low pressure in a remote area. Even after the spill,

when the agency decided to impose its regulatory authority, BP resisted, said its administrator, Thomas Barrett, testifying in a later panel.

"It's the kind of thing that would cause us to question their commitment," said Rep. John Dingell, D-Mich.

Barrett's chief safety officer, Stacy Gerard, said BP had a pattern of resisting regulation. The company fought having its high-pressure lines included in a new integrity management program designed to increase safety, primarily through the use of pigs to clean and test the pipe.

### **Other Environmental Problems**

123. In 3/03 and 1/05, the South Coast Air Quality Management District in California filed civil lawsuits against BP's Carson, California refinery, seeking penalties for various alleged air quality violations. In 3/05, BP agreed to settle all outstanding claims for \$25 million in cash penalties and approximately \$6 million in past emissions fees. Under the terms of the settlement, BP also had to fund \$30 million over ten years in community benefit programs and \$20 million in new refinery projects aimed at reducing emissions. In 2005, BP paid a total of approximately \$56 million in environmental and safety fines and penalties in the U.S.

### **Workplace Safety Problems**

124. During 2001 to 2002, BP experienced an unusual, and unacceptably high, number of significant worker safety problems in its U.S. operations. In 8/01, after North Slope workers complained that budget cuts forced them to work with worn-out and dangerous equipment, BP insisted that its North Slope operations were safer than ever. Yet, in 8/02, when an explosion and fire at a Prudhoe Bay wellhouse put a veteran worker in the hospital with serious burns, BP claimed that well inspections prior to the blast had been